



Institute
and Faculty
of Actuaries

Why should the CEO and CRO care about Emerging Risks?

Emerging Risks Working Party

2 June 2014



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PLEASE TAKE 5 MINUTES TO READ THE FLYER ON YOUR SEAT

THINK ABOUT TOPICS IN RELATION TO EMERGING RISKS YOU WOULD LIKE THE WORKING PARTY TO CONSIDER TO HELP YOU

Enterprise
 Sponsorship
 Thought leadership
 Progress
 Community
 Sessional Meetings
 Education
 Working parties
 Volunteering
 Research
 Shaping the future
 Networking
 Professional support
 Enterprise and risk
 Learned society
 Opportunity
 International profile
 Journals
 Support

2 June 2014

Agenda

- Introduction to IFoA working parties
- Members of the Emerging Risks working party
- Summary of Terms of Reference
- What we have done so far
- Five reasons why the CEO and CRO should care about Emerging Risks
- What issues do you think the working party should be focusing on?
- Discussion

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Introduction to the IFoA working parties

- In August 2013, the ERM Research and Thought Leadership Committee oversaw the formation of 5 new member-led research working parties:
 - Emerging Risks
 - Design of the risk function
 - Resilience
 - Risk culture
 - Model risk
- The IFoA launched a request for volunteers to contribute to these various working parties.
- The request was open to insurance practitioners, actuaries, modellers, academics and other professionals, e.g. engineers, doctors, IT professionals and economists.
- Time commitment for each working party: attendance at around 8 meetings per annum and follow-up on actions between meetings

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Definition of Emerging Risks

- “An issue which is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting.”
- *Source: Lloyds of London*

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Members of the Emerging Risks working party involved in production of this presentation

Sponsor: Nick Silver
IFoA Executive representative: Dawn McIntosh

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|-----------------------------------------|------------------------------------------------------------|
| Kiran Kamath (chair) – Aviva UK Life | Patrick Thomé – EY |
| Marcus Bishop – Pension Protection Fund | Peter Telford – Legal & General |
| Edward Luke – Independent Actuary | Juliana Dengeri – Albanian Financial Supervisory Authority |

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Summary of Terms of Reference

- **Role of the working party**
 - Carry out research into emerging risks
 - Provide technical and commercial insight for actuaries and other practitioners working in the field of risk management
 - Support the Profession's public interest obligations
- **Scope of the working party – Key areas of focus**
 - Identification of Emerging Risks
 - Monitoring and management of Emerging Risks
 - Communication of Emerging Risks

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What we have done so far

- **Identification and ongoing review of available literature**
- **What we have found**
 - Plenty of good material available from industry, consultancies and World Economic Forum
 - *Example:* PWC and Oliver Wyman reports
 - *Example:* Shell "New Lens Scenarios" – exploring different visions of what the world could be like in the future
 - A number of academic papers considering theoretical approaches
 - *Example:* "A review of the use of complex systems applied to risk appetite and emerging risks in ERM practice" by Neil Cantle and others
- The papers all contained a lot of good information, but a problem is that companies are often not incentivised to care about emerging risks.

Challenge - Why should the CEO and CRO care about emerging risks?

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Challenge - Why should the CEO and CRO care about emerging risks?

Reason 1 - Emerging risks are big - but can often be spotted

- Emerging Risks can cross over industry sectors and can cause company failure and bankruptcy. This in turn can impact customers, investors, other industries and governments.
- As the impact can be material, the implications for senior management of ignoring them can be severe.
- The good news is that MI can often be used to help detect emerging risks and give companies the best chance to respond.
- The 2008 financial crisis showed how some banks managed to avoid the worst of the crisis by spotting the trends and taking action early.

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Challenge - Why should the CEO and CRO care about emerging risks?

Reason 2 – Past performance is not guide to the future

- As actuaries our models usually assume that the future will resemble the past – Emerging Risks are what can, and eventually will, invalidate this major assumption.
- If we don't consider them we can rely too much on our models and draw false comfort on the risks which can emerge in the future.
- Over the last 20 years Emerging Risks have fundamentally changed the world in which we operate – look at the impact of climate change and terrorism.
- “What gets measured gets managed”. How do you know you are measuring and managing the right aspects of your business to prevent *tomorrow's* crisis?

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Challenge - Why should the CEO and CRO care about emerging risks?

Reason 3 – A competitive advantage?

- Some Emerging Risks offer great opportunities for those companies that are able to mitigate those risks and therefore turn a threat into an opportunity for growth.
- Take online shopping, which has been threatening traditional retail for a number of years. Some companies failed to spot the trend early and as a result have gone bust
- Other companies have embraced the new technology via “click and collect” and online delivery.
- What was once seen as an emerging risk is now a permanent feature of the market, which provides opportunities for companies to access new customers and build brand loyalty.

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Challenge - Why should the CEO and CRO care about emerging risks?

Reason 4 – Our reputation depends on it

- The insurance industry is the industry which society looks to be there and stick to its promises in the worst times.
- People buy insurance is to allow them not to consider extreme risks, but pay us to worry about them instead. If we can't provide them with this peace of mind have we failed as an industry?
- Regulators and rating agencies will want to know if a company has considered emerging risks.

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Challenge - Why should the CEO and CRO care about emerging risks?

Reason 5 – Helping society

- Emerging risks are largely outside of the control of any one company. This makes it crucial for all interested parties across an industry to work together.
- It is therefore the responsibility of all of us to care about Emerging Risks so that companies across an industry can work together for the good of society.
- Our Working Party can see significant advantages in the formation of a cross-industry body to look at Emerging Risks, incorporating insurers, pension funds, consultancies, academia, regulators and governments.

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What issues do you think the working party should be focusing on?

- The Working Party is there to help the Profession.
- Please share the topics you would like the Working Party to consider.

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...Few questions

- Do you think Emerging Risks are taken seriously enough and how do you get people to care?
- How do you identify Emerging Risks?
- What Emerging Risks are you worried about and how do you manage them?
- How do you believe the Profession can improve consideration of Emerging Risks?

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